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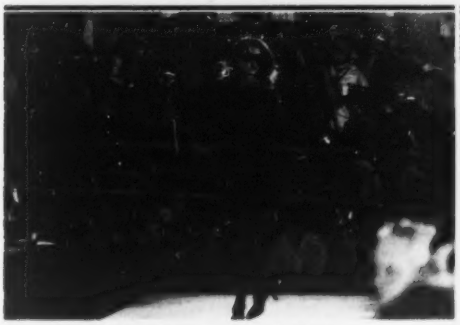
May 11, 1992

Forbes

Designing Women

Nicole Miller and other women executives are taking over Seventh Avenue

Forbes
MAY 11, 1992 VOLUME 149 NUMBER 10



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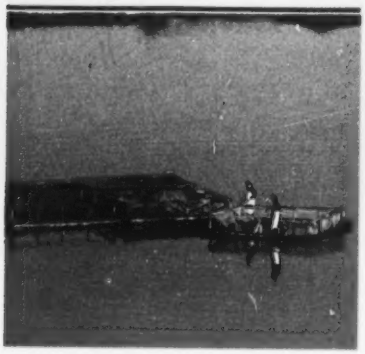

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Cover photo by Theo Westenberger

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May 11, 1992
Volume 149
Number 10
FORBES (ISSN 0015 6914) is published biweekly except weekly during two weeks in October, by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Canadian second-class postage paid, permit number 9490. GST # R125769513. POSTMASTER: Send address changes to Forbes, P.O. Box 10048, Des Moines, IA 50340-0048.

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Subscriptions: U.S.A. one year (27 issues), $52. Canada, one year, $90 Canadian funds (includes GST). All others $119, U.S. funds. Air Mail rates available upon request. **Forbes Subscriber Service:** To order, change address or other customer service, call 1-800-888-9896 or write Forbes, P.O. Box 10048, Des Moines, IA 50340-0048.

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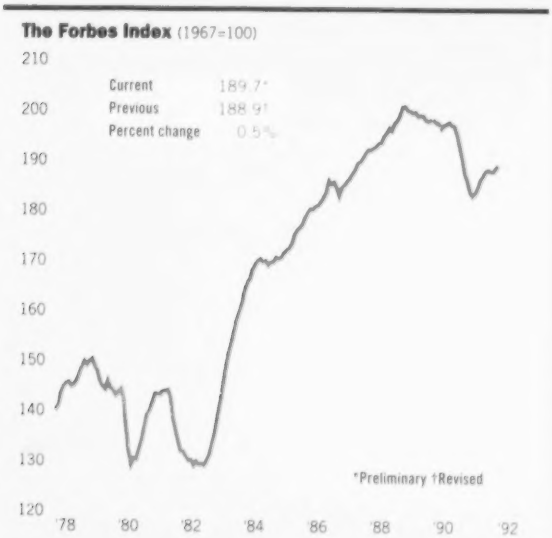
THE FORBES INDEX

BY TIMOTHY DODMAN



March starts for privately owned homes were 54% above last year's abnormally depressed March figure. The strength of the housing indicator is responsible for the 0.5% gain in the preliminary Forbes Index for March. But absent housing starts, the Index would show a 0.2% decline. The Federal Reserve continued its accommodative monetary policy by further exerting downward pressure on short-term rates. But should March's 0.5% jump in consumer prices mark an uptrend in inflation, the Fed could turn stingy.

Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	6.5%
Auto sales year to date vs 1991[1]	Ward's Automotive	0.6%
Index of leading indicators Feb vs Jan	Dept of Commerce	0.8%
Trade balance 12 months ended Feb 1992	Dept of Commerce	-$68 bil
All-commodity producer price index Mar vs Feb[2]	Dept of Labor	0.0%
GDP 4th quarter vs 3rd—annualized growth	Dept of Commerce	0.4%
M2 (3-month change)—annualized growth[3]	Federal Reserve	4.2%

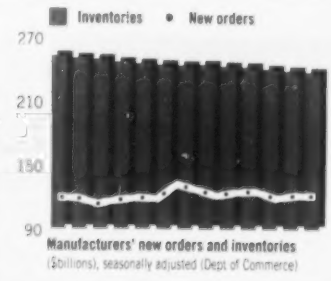
[1] U.S.-based manufacturers, excludes imports, as of 4/10/92. [2] Wholesale goods. [3] Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months data for each series are presented below.

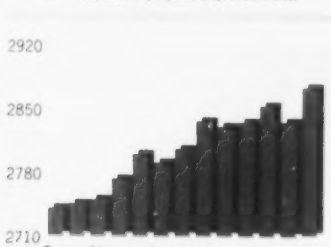
Consumer price indexes (1982-84 average=100) all urban consumers, unadjusted (Dept of Labor)



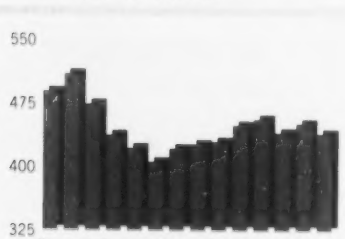
Manufacturers' new orders and inventories ($billions), seasonally adjusted (Dept of Commerce)

Industrial production index (1987=100) seasonally adjusted (Federal Reserve)

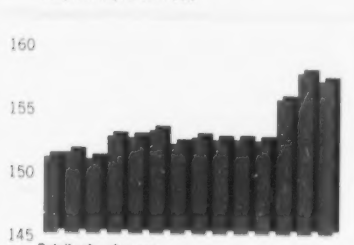
New housing starts (thousands) privately owned, unadjusted (Dept of Commerce)



Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept of Commerce)



New unemployment claims average for month (thousands), seasonally adjusted (Dept of Labor)



Retail sales ($billions), seasonally adjusted (Dept of Commerce)

Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

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Socialism makes Israel vulnerable to U.S. pressure.

Can Israel go it alone?

By Peter Brimelow

THE U.S.-ISRAELI relationship is emitting ominous creaking noises.

President Bush has forced Israel into peace negotiations. He appears to have succeeded in derailing the $10 billion loan guarantees that Israel wanted to settle the 200,000 immigrants expected annually from the former Soviet Union. His officials have been quoted accusing Israel of bootlegging U.S. military technology to China. (A State Department investigation found "no evidence" in the case of the Patriot missile; the results of another investigation remain classified.) And many Americans seem to approve: A recent opinion poll found that 49% of voters oppose the loan guarantees under any circumstances.

All of which raises an interesting question: Could Israel survive without U.S. aid?

The full extent of U.S. aid to Israel is notoriously difficult to calculate. For example, certain grants to Israel are, uniquely, disbursed at the beginning of the U.S. fiscal year. This earns the Israelis additional millions of dollars in interest. And the U.S. pays for some of Israel's own foreign aid programs. How do you count that?

According to an official estimate recently presented to Congress, Israel received just over $4.1 billion in U.S. aid in 1991, about half of it military, plus some $400 million in loan guarantees and potential access to about $1 billion in other, chiefly military, programs. Egypt got some $4.6 billion. Together, the two countries took up about three-quarters of net U.S. foreign aid in 1990.

Last year U.S. government aid amounted to about 8% of Israel's $53 billion GNP. Counting German and private contributions, total subsidies may be as much as 12%.

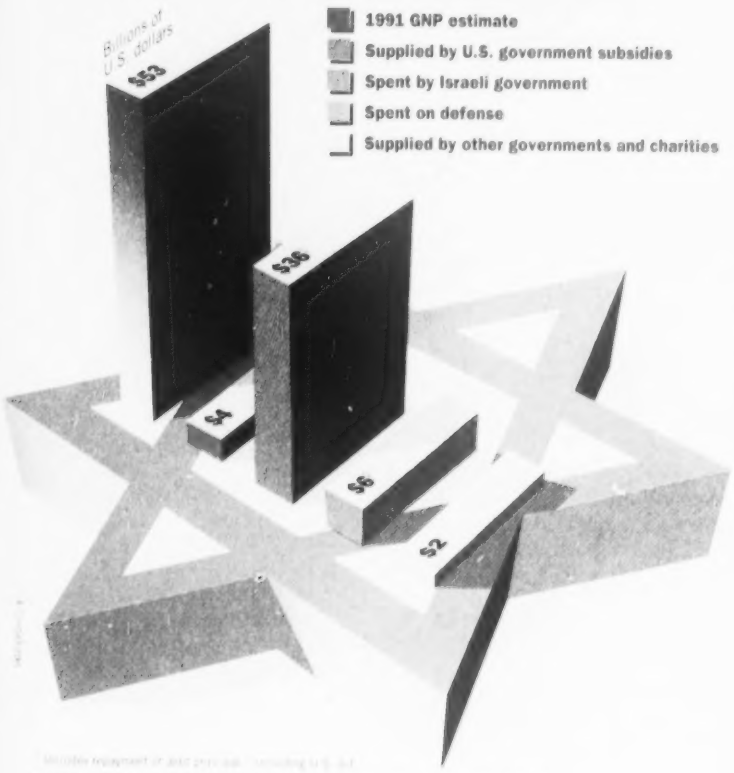
At present, aid plays a pivotal role in Israel's economy. It finances the balance of trade deficit and Israel's government budget deficit. And it underwrites periodic crises. For example, U.S. aid in real terms surged to more than twice its present level directly after the 1978 Camp David agreement, and it also jumped in response to the 1973 Yom Kippur War and Israel's 1985 banking crisis.

The Israeli economy is socialist—or at least highly statist (FORBES, *May 27, 1991*). The central government directly controls about two-thirds of the country's GNP and regulates the rest heavily. That's about double the government share in the early years of independence. And it's not due to the defense burden: Military spending is about 12% of GNP, slightly more than the proportion of GNP spent by the U.S. during the Cold War peak. All these things give Israeli politicians extraordinary leverage on their country's economy.

Political control of the economy has this advantage: If U.S. aid were cut off, the Israeli government would at least have some capacity to allocate the shock in the short term.

And in the long term? Radical free market critics like Alvin Rabushka of California's Hoover Institution and Jerusalem's Institute for Advanced Strategic & Political Studies argue convincingly that subsidies have actually hurt Israel. The great bulk of U.S. aid—now totaling $81 billion in 1991 dollars—was given since 1971. This period, says Rabushka, saw the Israeli government's share of GNP reach its current high levels and, even-

Israel's economy: significantly subsidized



Israel's economy is government-dominated, but not because of military spending. And foreign subsidies are significant.

tually, economic stagnation. U.S. aid has subsidized socialism and promoted dependency. It has created a serious problem for Israel whether or not it is withdrawn.

Israel has few natural resources. And it may never have good political relations with its neighbors.

But, Rabushka claims, it could copy Hong Kong, which was equally resourceless, barred from its natural hinterland and even farther from its markets when it began to develop. Or Singapore, which lost 6% of its GNP and 20% of its jobs when the British closed their military base in the mid-1960s. Both were saved by moving to free trade and high technology.

Israel already has free trade agreements with both the European Community and the U.S. ("asymmetrical," says Rabushka of the latter, because the U.S. gives Israel better access). And those Soviet immigrants should be a massive high-skill injection into a population that is already well educated and highly skilled by world standards.

But Hong Kong and Singapore were hardly model democracies. The reality is that no democratically elected leader—not Ronald Reagan, not Margaret Thatcher—has yet succeeded in decisively rolling back the state. As a genuine democracy, can Israel do what the U.S. and Britain could not?

With a thorough free market system, Israel could possibly do better without U.S. economic aid than it does with it.

But can any democracy shake its addiction to state spending—which in Israel's case means addiction to American assistance?

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Candidates who talk about taxing the rich are really aiming straight at the middle-class wallet.

Getting the message

BY MICHAEL NOVAK

Michael Novak holds the George Frederick Jewett chair in religion and public policy at the American Enterprise Institute in Washington, D.C. His book *The Spirit of Democratic Capitalism* has been widely translated around the world.

AT LAST the left is beginning to get it. The stunning come-from-behind victory of John Major in Britain moved even the left-leaning *Washington Post* to interpret the British election as "a fundamental clash between what remains an essentially socialist vision of British society and a free-market, capitalist one. The latter won handily." There are lessons in this for America.

Europe's socialist left was once "the Continent's dominant social and political force." But with the defeat of the socialist left in Britain, last year's defeat in Sweden and other defeats in Germany, France, Spain and Italy, one sees "just how weak and unpopular the left has become."

What's left of the left? "Socialism is a set of values rather than a fixed economic theory," intones John Smith, British Labor's top economic spokesman (and Neil Kinnock's probable successor). But socialist "values" have lost their glow.

Socialists fixed their moral vision on the social group, the whole society, and wanted individuals to be equal. They wanted government to enforce this equality, to take from "the rich" and become provider for the needy. Socialist sermons used the rich as Christian sermons once used "the world, the flesh and the devil." As often as it could, socialism appealed to class war, the many "us" against the few "them."

The best answer from the right was to move more and more people out of dependency on the state and over into the ranks of those able to improve their condition by their own enterprise. Steady success here altered the moral equation. People by the millions came to recognize that they were the rich the left loves to leech.

For years, the American left took its

WHO OFFERS POLICYHOLDERS SOME OF THE BEST THINGS IN LIFE?

signals from the social democrats of Europe. The American left was always apologizing for America's not being as morally advanced as nations led by the European left. If they had nationalized health care, then we were backward not to. (Blame America first!)

But that dog doesn't hunt, not now. The people have gotten more intelligent about what's really happening around them. Consider this year's argument about "helping the middle class." Bill Clinton, for one, proposes to raise taxes on the rich, in order to help the middle class. But just who is paying most of the taxes now? And where does he think rich begins?

According to the Congressional Budget Office, 72% of all federal income taxes in 1990 were paid by the top 20% of families. The entire bottom 60% (families with incomes below $42,040) paid only 11% of federal income taxes. Families earning below $29,044 paid only 2.4% *(see table)*.

The cutoff point for entering the top 20% in 1990 was $61,490. But families at even twice that level know for sure that they are middle-income. Congress is paid more than twice that level, and they talk as if the rich were somebody else.

The changing tax burden

	1980	1990	% change
Upper			
Top 1%	18.2%	25.4%	+40%
Top 5%	36.0	44.1	+23
Top 10%	48.8	56.1	+15
Top 20%	66.0	71.8	+ 9
Mid and lower			
Bottom 60%	13.8	11.0	–20
Bottom 40%	3.6	2.4	–33
Bottom 20%	–0.2	–0.5	–150

Source: Congressional Budget Office.

Share of federal income tax revenues paid by each income group.

What about the top 5% (income over $102,400) or the top 1% (income over $220,000)? These two groups paid a much larger share than people think. The top 1% paid 25% of all federal income taxes; the top 5% paid a stunning 44%.

The only quintile that paid its approximate share of federal income taxes in 1990 was the next-to-top quintile, the 20% of families earning between $42,040 and $61,490, who paid 17% of all income taxes.

What's so unfair?

One objection to this analysis is that, by contrast with federal income taxes pure and simple, Social Security taxes and Medicare taxes are far more regressive. But who talks about raising those? Since those contributions purchase future benefits, and then some, they are usually off-limits to political discussion. The public debate is about federal income taxes pure and simple. And this reality is constantly misstated by the left.

But people know. Instinctively, they know. Candidates who talk about taxing the rich never aim straight. They always shoot the middle-class right in the wallet. Voters, everywhere, have got the point. The left is slowly, groggily getting it, too.

Any people who think of themselves as religious will want to help the poor and the vulnerable. But coercive redistribution isn't the way. It doesn't work and it isn't fair. The left needs to dig itself new foundations. ■

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*Variable life insurance policies are issued by Equitable Variable Life Insurance Company, a wholly-owned subsidiary of The Equitable Life Assurance Society of the United States. All rankings are for periods ended December 31, 1991, as calculated in the Lipper Variable Insurance Products Performance Analysis Survey (VIPPAS). According to Lipper Analytical Services, Inc., the Lipper VIPPAS universe consists of nearly 400 mutual funds that underlie variable life and variable annuity products. All of the funds included in these rankings report performance net of investment management fees and direct operating expenses. The performance data Lipper uses to calculate rankings do not reflect insurance-related costs, expenses or sales charges which would reduce the return to policyholders. The Global Portfolio was ranked #1 out of 8 and 11 global funds, respectively, for the three- and one-year periods; the Asset Allocation Growth Investors Portfolio was ranked #1 out of 35 and 41 flexibly managed funds, respectively, for the two- and one-year periods; the Common Stock Portfolio was ranked #2 out of 9 equity funds for the ten year period.

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THE FORBES/BARRA WALL STREET REVIEW

BY GILBERT STEEDLEY

Just when Wall Street was starting to fret over whether stocks were overvalued and worry about the collapse of the Tokyo stock market, along came Alan Greenspan. On Apr. 10 the Federal Reserve cut the target rate for federal funds from 4% to 3.75%, and the Dow industrials rose nearly 43 points. The Dow finished the two weeks ended Apr. 16 up 132 points, a 4.1% change.

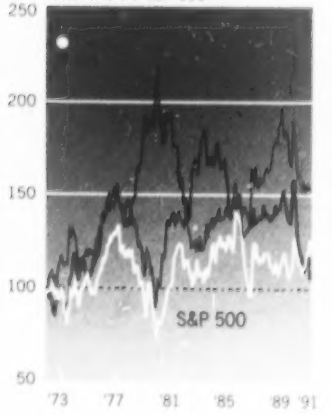
Chemical Banking Corp. responded to the Fed's action by lowering its prime rate from 6.5% to 6.25%. Other banks will probably follow Chemical's lead. On Apr. 16 Citicorp made substantial cuts in its credit card interest rates. This move is likely to pressure other banks to lower their rates and could stimulate increased spending by consumers.

The stock market also got some good news on first-quarter profits when IBM posted better than expected earnings of $1.04 a share.

Special focus

Before MCI and Sprint, AT&T's breakup and cellular phones, the telecommunications industry was pretty dull. But these changes boosted the performance of telephone stocks. From 1973 to 1991 a capitalization-weighted portfolio of telecommunications stocks beat the S&P 500 by over 2.5% a year.

Performance of utility stocks relative to the S&P 500



The overall market

Closeup on the market

Index or investment	2-week change	% change from 1 year	% change from 5-year high
Barra All-US index	2.9%	8.4%	-2.7%
Sharpe/Barra Growth index	3.2	10.5	-4.4
Sharpe/Barra Value index	4.8	9.8	0.0
Dow Jones industrials	4.1	12.2	0.0
S&P 500	3.9	7.1	-0.7
NYSE	3.3	7.7	-0.9
Nasdaq	-0.3	16.8	-8.2
Amex	0.6	5.2	-6.3
EAFE	3.0	-14.0	-28.2
CRB index[1]	-1.6	-5.7	-24.5
Gold	-1.0	-5.7	-32.8
Yen	1.9	-2.8	-18.3
Oil[1]	2.0	-4.3	-50.9

The best and worst performing stocks[2]

Best	Price	2-week change	1992 EPS[3]	Worst	Price	2-week change	1992 EPS[3]
Meridian Diagnostics	15¼	33%	NA	Centocor	16	-43%	$-1.11
Douglas & Lomason	34¼	32	$3.33	Bachman Information Sys	13½	-39	0.50
Radius	11	29	0.59	Greenwich Pharma	10½	-33	-0.50
Valley Natl Corp Ariz	46⅛	29	2.32	AdvaCare	7⅛	-32	0.22
Parametric Technologies	34⅓	29	0.59	MGI Pharma	8	-31	-0.72

The best and worst performing industry factors[4,5]

Best	2-week change	Since 12/31/91	Worst	2-week change	Since 12/31/91
Oilfield services	11.0%	13.4%	Real estate	-2.7%	-0.6%
Coal & uranium	9.3	14.1	Precious metals	-2.7	-14.1
Motor vehicles	9.2	42.3	Air transport	-1.9	-4.9
Construction	9.2	14.6	Drugs	-0.6	-11.5
Railroads	8.5	6.3	Photographic, optical	0.1	-22.9

Note: Data for period ending 4/16/92. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. [1] Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. [2] Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. [3] A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. [4] Index of 21 commodity futures. [5] Knight Ridder Financial Information. [6] During the last two weeks. [7] Estimate. Source: Institutional Brokers Estimate System, from IBES, Inc. [8] Shows return to the industry factor after controlling for other influences including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. NA: Not available. Principal source: Barra, Inc., Berkeley, Calif.

MUTUAL FUND REVIEW

BY JOHN CHAMBERLAIN

Sales

Performance

No letup is in sight for the flood of retail money into the stock and bond markets. The Investment Company Institute reports that net sales of equity and bond funds in the first two months of 1992 topped $34 billion. That follows a total for 1991 of $118 billion, which came in at more than double the figure for 1990.

What did fund managers do with this influx of money? Apparently, some of them sat on the sidelines in cash. For the first quarter, the total return (income plus capital gain or loss) was -2.5% for the S&P 500 and -1.4% for the Merrill Lynch Corporate/Government Master Index. In contrast, the Forbes index of the 25 largest equity funds was off only 0.8%. The 25 largest fixed-income funds had a positive 1.1% total return (upper right).

The table below lists the winners and losers over the three-year period ending in March. The best fund: the closed-end Mexico Fund, which averaged a 64% compound annual return. (The S&P 500 averaged less than 15%.) Despite a 13% loss in the first quarter, Fidelity Select-Health Care placed second.

The biggest losers during the past three years were mostly gold and precious metals funds. One notable non-gold fund on the poor performers list is the Japan Fund; its record reflects the collapse of the Tokyo stock market.

Two Benham Target funds lead the list of best-performing bond funds. But note their "F" grades in down markets. These funds underperformed other bond funds during months in which interest rates were rising.

The best performers

Fund	Forbes rating up	Forbes rating down	Total[6] return	3 year[7] return
Equity[5]				
Mexico Fund	A	A+	89.8%	64.2%
Fidelity Select-Health Care	A+	D	18.0	36.4
CGM Capital Development	A+	B	46.3	32.5
Berger One Hundred	A	D	39.9	32.1
20th Century Ultra Investors	A+	F	23.3	30.1
Fidelity Contrafund	A+	D	27.5	28.5
Hartwell Emerging Growth	A+	F	23.8	28.1
AIM Equity-Constellation Fund	A+	F	33.3	27.2
Bergstrom Capital	A	A	18.6	27.1
General American Investors	A	D	21.1	25.9
Fixed income				
Benham Target Maturities-2005	A+	F	13.3	19.3
Benham Target Maturities-2015	A+	F	13.3	17.4
Merrill Lynch Corp-High Income	B	A	32.3	14.3
Kemper Diversified Income Fund	A	C	34.0	14.3
Liberty High Income Bond	A	C	38.4	13.8

The worst performers

Fund	Forbes rating up	Forbes rating down	Total[6] return	3 year[7] return
Equity[5]				
United Services-Gold Shares	D	D	-15.6%	-11.0%
ASA Limited	C	D	10.5	-6.2
Japan Fund	B	C	-19.3	-6.1
Bull & Bear Gold Investors	F	F	-4.0	-5.6
Lexington Goldfund	D	D	-7.2	-5.6
Keystone International Fund	C	B	4.7	-3.3
Oppenheimer Gold & Spec Mins	C	C	3.2	-3.3
Keystone Precious Metals	D	D	4.3	-3.0
Fidelity Select-Precious Metals & Mins	D	D	-0.9	-2.9
Van Eck International Investors	C	D	-0.2	-1.2
Fixed income				
Pilgrim S-T Multi-Market Income	F	B	4.7	-8.3
Dean Witter High Yield Securities	A	F	49.7	0.2
Alliance Bond-High Yield	D	D	24.3	0.9
First Investors High-Yield Fund	D	D	31.7	3.6
Keystone Custodian B-4	C	D	38.0	4.2

Note: To be rated, equity funds must be in existence since 6/30/83; taxable bonds 9/30/86, junk bonds 2/28/87. [1]Monthly net sales of open-end funds. Net sales are purchases by investors, including reinvested dividends, less redemptions. [2]Includes tax-free and foreign bond funds. Source: Investment Co. Institute. [3]Index of total return for the 25 largest stock funds in 1986. [4]Index of total return for the 25 largest taxable bond funds in 1986. [5]Includes balanced funds. [6]Total return for one year ending 3/31/92. [7]Total return (annualized), for three years ending 3/31/92.